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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 000467

SIPDIS

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SUBJECT: PRESIDENT ALIYEV SHARES HIS VISION WITH U/S JEFFERY

REF: A. A) BAKU 377

1B. B) BAKU 383

Classified By: Ambassador Anne Derse, reasons 1.4 (b,d)

11. (C) SUMMARY: In an April 22 conversation with U/S Jeffery and Ambassador Derse, President Aliyev said that he was seeking "greater clarity" from the Nabucco countries as to their real intentions, and from Turkmen President Berdimuhamedov on how active the GOTX will be in seeking energy cooperation with Azerbaijan. Given the considerable increase in state revenues, Aliyev is focused on modernizing all aspects of the decrepit Soviet-era infrastructure, to include roads as a priority this year. In the coming years Azerbaijan would seek to build on the success of its energy sector by focusing on developing the non-energy sector. Europe and the EU need to be more active in pursuing Caspian gas, since it is their energy security that is imperiled by over-reliance on Gazprom. END SUMMARY.

12. (U) On April 22 U/S Jeffery and Ambassador Derse met with President Aliyev. Also present were Special Assistant Robert Winchester and Embassy notetaker.

ECONOMIC COOPERATION WITH U.S., WEST

13. (C) Aliyev said he hoped economic cooperation between the United States and Azerbaijan would grow and expand into the non-energy sector. There has not been significant foreign direct investment in Azerbaijan, perhaps because of the "lack of information on opportunities." Azerbaijan was inviting major international non-energy companies to participate in Azerbaijan's economic growth, and "U.S. companies are welcome." Although now Azerbaijan's energy sector is "its life and its future," within five years Azerbaijan will have a strong non-energy sector, so oil and gas will be less important. For its non-energy sector development Azerbaijan wants large companies with good reputations, just as it had sought out such companies when developing its energy sector. Azerbaijan's economic success would enhance its ability to help neighbors such as Georgia, and send a clear message to other regional countries, including Iran, of the superiority of the Western economic model and "our way of life."

INFRASTRUCTURE

14. (C) Aliyev said his government was building up Azerbaijan's infrastructure, having invested approximately USD 6 billion in infrastructure projects so far, a tenfold increase over the last two years. Building road connections to neighboring countries was his first priority; USD six to

seven hundred million dollars were earmarked in this year's budget for this purpose, and the President was considering doubling this amount. Azerbaijan inherited a Soviet infrastructure that was in serious need of modernizing. This year marks the first year of rapid increase in state expenditure, and Azerbaijan has a good opportunity now to "modernize everything.

"REACHING OUT TO WEST

¶ 15. (C) Responding to U/S Jeffery's expression of appreciation for Azerbaijan's contributions to Coalition efforts in Afghanistan and Iraq, Aliyev said that the GOAJ was increasing its commitments in Afghanistan, building up to 90 soldiers, plus additional humanitarian and other types of assistance. Azerbaijan's efforts in Afghanistan reflected Azerbaijan's policy of cooperation with NATO, Europe and the United States.

¶ 16. (C) Aliyev said that in Azerbaijan, unlike many FSU countries, there was no ongoing political debate and no public discussion on whether to align with the West and whether to cooperate with NATO. The Azerbaijani people see via the Oil Fund that Azerbaijan's energy income is being spent on the people, and that the GOAJ is planning and implementing programs that improve the daily lives of its citizens. Due to government programs in the last four years, poverty has plunged from 49 percent of the population to 16 percent. Aliyev said that by its wise stewardship of its energy revenues the GOAJ has earned the peoples' trust in the foreign policy arena, and the GOAJ was doing the maximum

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to ensure Azerbaijan's independence.

ENERGY

¶ 17. (C) Azerbaijan has implemented all of its energy projects relating to production and transportation, and its energy infrastructure is now sufficient for its needs and future developments, Aliyev said. Azerbaijan's energy security is fine; now it is ready to help Europe. In this regard, it has offered its infrastructure for other countries (i.e. Kazakhstan and Turkmenistan) for their use.

NABUCCO

¶ 18. (C) Aliyev said Azerbaijan likes the idea of Nabucco, and providing gas to the Nabucco countries. However, the next year would be crucial for Nabucco. Azerbaijan needed to get a clear picture of the situation in the various Nabucco countries, and to identify those seeking its gas before making a decision. For example, during Aliyev's latest trip to Hungary he heard great expressions of support for Nabucco and interest in Azerbaijani gas, but then two days later Hungarian officials visiting Moscow announced Hungarian support for Southstream. Azerbaijan had offered to organize a "Nabucco Ministerial Conference," to clarify issues surrounding Nabucco and work out a timeline, but there had been no response from the countries or companies promoting Nabucco. European states are complacent, there is no clear EU energy policy, and Europe is behaving as if it is gas for someone else we're talking about, and not Europe." With 27 bcm of gas production this year (associated and non-associated) and domestic consumption of only 10-11 bcm/a, Azerbaijan has 17 bcm/a for export and could support Nabucco now: "We are ready, but the EU needs to get more involved."

EU

¶ 19. (C) Two years ago Azerbaijan signed an Energy MOU with the EU, but since then "nothing has changed; the EU troika comes

here once a year, tells us how to live, and then goes away," Aliyev said. Russia perforce will have to reduce supplies to Europe as its own demand grows and its gas supplies lessen.

Europe should be working now with Turkmenistan, Kazakhstan, Azerbaijan, and Uzbekistan. European countries, who need it most, should be at the forefront of the effort to build a cross-Caspian gas pipeline to get additional Caspian gas going westwards, but they are "waiting for someone else to do it." Azerbaijan won't, "because it isn't our gas," and Turkmenistan is too scared of Russia to do so, Aliyev said.

TURKMENISTAN

¶10. (C) Azerbaijan doesn't need the money from Turkmen gas transit, and the GOTX needs Azerbaijan more than Azerbaijan needs Turkmenistan, Aliyev said, since Turkmenistan needs Azerbaijan transit to avoid being monopolized by Gazprom. Turkmenistan has already benefited from the possibility of Azerbaijani transit in the form of increased prices for its gas from Gazprom. As part of its desire to cooperate with the West, Aliyev said that the GOAJ has "offered its infrastructure" to Turkmenistan, but "we can't decide for them." Turkmenistan must act more courageously, especially given the fact that the more Azerbaijan cooperates with Turkmenistan, the more pressure Russia puts on Azerbaijan. The upcoming May visit of Turkmen President Berdimuhamedov to Baku should give Azerbaijan a clearer vision about future cooperation. The disputed offshore fields should be at the "bottom of the agenda," with the emphasis on bilateral cooperation on connecting Turkmen gas to the GOAJ offshore infrastructure for transit west. If Azerbaijan and Turkmenistan can cooperate on delimitation, Iran will be "totally isolated" in the Caspian. Azerbaijan is not going to wait forever for Turkmenistan to screw up its courage. In this region the US is the prime mover, and to a large extent the reason Turkmenistan has opened up to the West has been due to USG diplomatic efforts. As such, Azerbaijan looks to the U.S. for help with Turkmenistan.

TURKISH GAS TRANSIT

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¶11. (C) Turkey wants to be "another Gazprom," but upstream producers and downstream consumers won't allow this to happen. The 15 percent netback proposal is unfair and creates a dangerous precedent, Aliyev said. Turkish gas demand is increasing, and Azerbaijan is willing to sell Turkey additional amounts at a good price, although not as much and not as cheaply as Turkey wants. Azerbaijan needs to diversify its customers too, which is why it doesn't want to sell all SD2 amounts to Turkey. Another problem is that GOT officials who negotiate gas sale contracts "run the risk of going to jail," which makes Turkish officials reluctant to give concessions that might later lead to diminished career prospects. Aliyev said that given goodwill on both sides, he hoped that the Turkish transit issue would be resolved within the next two months.

SOFAZ/OIL REVENUE

¶12. (C) Aliyev said the State Oil Fund and the transparency it engenders plays a key role in enhancing Azerbaijan's national reputation and the people's confidence in their government. The National Parliament decides how revenues will be spent, further increasing transparency and by extension the peoples' trust. Azerbaijan's EITI efforts have won awards from the UN.

ECONOMIC COOPERATION/CO-FINANCING

¶13. (C) In the context of Aliyev's comments on Azerbaijan's

need for expertise in spurring non-oil sector development, Ambassador Derse pointed out that USAID could vastly increase the type and kinds of technical assistance it provided to the GOAJ if the GOAJ were to finance it. President Aliyev said he supported this type of cooperation.

WTO/EPC

¶14. (C) Asked about a target date for GOAJ WTO Membership, Ambassador Derse reminded the President that Customs must finish its submission before the May WTO working group meeting, and asked about a target date for GOAJ WTO membership. President Aliyev said that he was "not ready to name a date" for desired WTO accession, but that Azerbaijan was "moving forward." Some in the government weren't keen on WTO, so he had asked for an analysis of the pros and cons of WTO membership. More generally, Azerbaijan was taking steps to liberalize and simplify its business environment, with the number of days needed to start a business decreasing from 72 to three. Much was left to be done, which could be the subject of discussion during the upcoming summer/EPC.

¶15. (C) COMMENT: In contrast to a testier discussion with visiting RFE/RL President Gedmin and the Ambassador (ref A), Aliyev was very focused with U/S Jeffery on the positive aspects of the bilateral relationship. NK was not raised. Based on his conduct at this meeting and his recent meeting with DAS/D Daniel Fata (ref B), it is clear that Aliyev does not want disagreements with the U.S. over democracy, human rights, and the NK conflict, to affect cooperation on energy security or security relations more broadly.

¶16. (U) U/S Jeffery has cleared this cable.
DERSE